Summary

The Canadian entertainment software market is a strong and rapidly growing industry with many opportunities for U.S. companies. U.S. companies that produce middleware tools, provide gaming services including advertising and publishing or would like to partner with a Canadian organization in game development will find many opportunities in the Canadian entertainment software market.

Market Demand

There are three main sub-segments in the Canadian entertainment software industry, namely:

1. video game production
2. middleware
3. game services.

Video game production includes major publishers, most of whom develop games in-house and finance external game development; third party game developers who develop games under contract with publishers; and independents that develop and market their own games and console manufacturers. Most of the console manufacturers only have sales and marketing personnel in Canada.

The *middleware* category includes organizations that make the tools, applications and software for game developers. This segment may also produce video game consoles and additional features for entertainment software.

The *game services* category includes firms that directly support the entertainment software industry. The majority of the Canadian entertainment software industry is focused on video game production. As indicated in the graph below, game production firms represent 83 percent of the market in the Canadian gaming industry followed by game ware organizations, and game services, including advertisers and publishers.

Table 1: Canadian Gaming Industry Profile
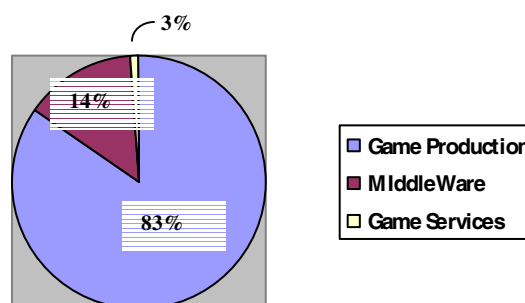
Geographically, much of Canada's entertainment software industry is located in three key areas: Vancouver, Montreal and the Greater Toronto Area (GTA). Secondary clusters exist and are showing strong growth potential in Quebec City, Edmonton, Calgary, Charlottetown, Winnipeg, Ottawa and London. These secondary areas are populated by a greater percentage of very small organizations (1-5 employees), they are also anchored by a relatively strong number of small and medium sized firms (5-20 employees and 20-100 employees, respectively). There are no very large (over 500 employees) or multinational organizations.

The entertainment software market is the fastest growing segment in the entertainment industry. According to PricewaterhouseCoopers, this market is expected to grow as a wider demographic of people begins to use this type of software on a daily basis on a variety of new platforms. PricewaterhouseCoopers projects that the global entertainment software market will grow at an annual rate of 7.4 percent over the next five years, from US$51.4 billion in 2008 to US$73.5 billion by 2013. Canada's overall rate of growth in this industry is estimated to be 29 percent in 2010.

The growth in the number of game development studios that operate in Canada has increased slightly over the past two of years. This is due, at least in part, because the Canadian Governments, both Federal and Provincial, have been offering tax rebates to game developers in order to encourage them to set up operations in Canada. A second reason for the growth is that market demand has increased in recent years. In fact, the entertainment software market has enjoyed a significant growth rate in Canada, reaching 23 percent in 2008 and 29 percent in 2009.

Canada is rapidly establishing itself as a world leader in the entertainment software industry, specifically the video game industry. Canadian video game developers are becoming renowned for producing high quality games and are behind some of the world's most successful game titles. According to Games Investor Consulting, Canadian-made games have had tremendous international success in terms of retail revenues over the past two years, with an estimated value of approximately US$3.28 billion and US$3.61 billion in revenues in 2008 and 2009, respectively. These earning helped to propel Canada ahead of the United Kingdom, to become the third most successful developers of video games in the world – behind the United States and Japan. In fact, the Entertainment Software Association of Canada (ESAC) has reported that ten of the top 100 video game development studios in the world are located in Canada.

Canadian Game Developers in Top 100

Canadian Game Developer	Rank in Top 100
EA Canada	4
Ubisoft Montreal	6
EA Black Box	20
A2M	27
HB Studios	56
Relic	66
EA Bioware	77
Silicon Knights	85
EA Montreal	86
Beenox	92

Market Data

Until 2007, when the ESAC published its first white paper, little was known about the size and scope of Canada's entertainment software industry. There was no aggregate data on the size of the industry, no overall job numbers or economic impact statistics to provide a snapshot of the significance of the Canadian entertainment software industry. Even today, trade data is difficult to establish because the numbers available are either bundled in with other forms of software or other forms of technology.

What is known from ESAC's most recent research is that in 2008 the demand for entertainment software in Canada continued to rise and industry representatives reported record sales in the last quarter of the year. Also in 2008, combined sales of software and hardware products grew by 33 percent from the preceding year, reaching a record breaking $2.2 billion. According to Hicking Arthurs Low Corporation's (HAL) report on the Canadian entertainment software industry, the software segment, which consists of console and portable game software, accounted for 50 percent of these sales, representing an increase of 51 percent from 2007. In Canada, the growth in retail sales is expected to continue but at a slower average annual growth of 9.2 percent through 2012. By the end of 2010, Canadian consumers are expected to spend $1.3 billion on entertainment software and related products. The current economic situation is not expected to alter these predictions.

According to the Hickling Arthurs Low 2007 report, 'Entertainment Software: The Industry in Canada', Canada's success in the entertainment software industry stems in part from the industry's evolution into a global production network of large game publishers and console manufacturers that have relied on third-party game developers to develop innovative titles. Canada is very well represented in this global production network, having captured a significant portion of the game development activity due in part to major investments by multinational publishers. The report states that half of Canadian organizations in this industry rely on exports for 90-100 percent of their revenues with Canada's largest export market being the United States. The survey also showed that the United States is the origin of a large majority of entertainment software imports into Canada. Neither industry nor government statistics are available for specific trade data on Entertainment Software. This is because industry has not collected research on trade data and the government places entertainment software in with all software manufactured in Canada.

Best Prospects

Canada's ability to take advantage of the global opportunities in entertainment software rests primarily on two factors: provincial governments that maintain a supportive business environment for entertainment software firms and a large pool of talent. Together, these factors underpin Canada's strength in game production. However, these benefits are only just beginning to extend to the middleware companies. Canadian game developers are in need of a number of third-party tools supplied by middleware companies to create cutting-edge 3D animation. U.S. developers who develop tools that range from audio systems that make a computer-generated scene sound like the real thing, to artificial intelligence 'engines' that drive the behavior and tendencies of characters and objects onscreen will find a large receptive market in Canada.

The most common option for U.S. game developers is to sell games to Canada through retailers. Many large U.S. retail outlets such as Best Buy, Future Shop, Toys 'R' Us and Wal-Mart, already have substantive Canadian retail presence. Canadian based sellers or renters of video games include large retail outlets such as Rogers Video, Future Shop (owned by Best Buy) and a number of internet cafes where a large number of online games are played.

Key Suppliers

Canada's entertainment software industry is comprised of both domestic and foreign companies. The largest companies in the Canadian entertainment software industry are game development studios owned by the two largest multinational entertainment software companies in the world; Electronic Arts of California and Ubisoft Entertainment SA of France. In fact, Ubisoft's largest development studio is located in Montreal, Canada and employs more than 1,600 employees.

Game Developers:

Canadian Companies:	**Multinational Companies (Publishers)**
Artificial Mind and Movement	Activision Blizzard – France
Artifact Software	Disney Interactive Studios – United States
Digital Extremes	Eidos Interactive Ltd. – United Kingdom
HB Studio	Electronic Arts (EA) – United States
Other Ocean Interactive	Koei – Japan
Project Whitecard	Take 2 Interactive – United States
Radical Entertainment	THQ – United States
Relic Entertainment	Ubisoft Entertainment SA – France
Silicon Knights	

Middle Ware:

Audiokinetic – Canada
Presagis – Canada
AutoDesk Softimage – United States
Babel Media – United Kingdom

Prospective Buyers

Canadian entertainment software consumers make up an extensive and very diverse population as males and females as well as the youth and elderly purchase entertainment software. ESAC conducted a survey that subdivides Canadians, who regularly play video games into three categories, namely:

1. long-time devotees
2. "born again," and
3. "newbies"

The survey found that 45 percent of the gamers are *long time devotees* to video games, 36 percent are *"born again" gamers* who have begun to play video games again after years of not playing, and 17 percent are *"newbies"* who have recently began to play video games for their first time. Within the current population of recent gamers, 64.3 percent are men and 34.9 percent are women. It is estimated that the number of female gamers will continue to increase in the future as video game developers continue to target females by creating games that are more attractive to women.

According to ESAC's 2009 survey of adult gamers, 67 percent of adults between 18-34 years of age are gamers, followed by 48 percent of adults between 35-54 years of age, and finally 34 percent of adults above age 55. The number of people, aged 55 years or higher who play video games is expected to increase in the future as more are using interactive video games for physical activity. This demographic is attracted to simple video games that incorporate a low to moderate level of physical activity.

Appendix 7: Canadian, by age, who have played a video game in the past 4 weeks (3):
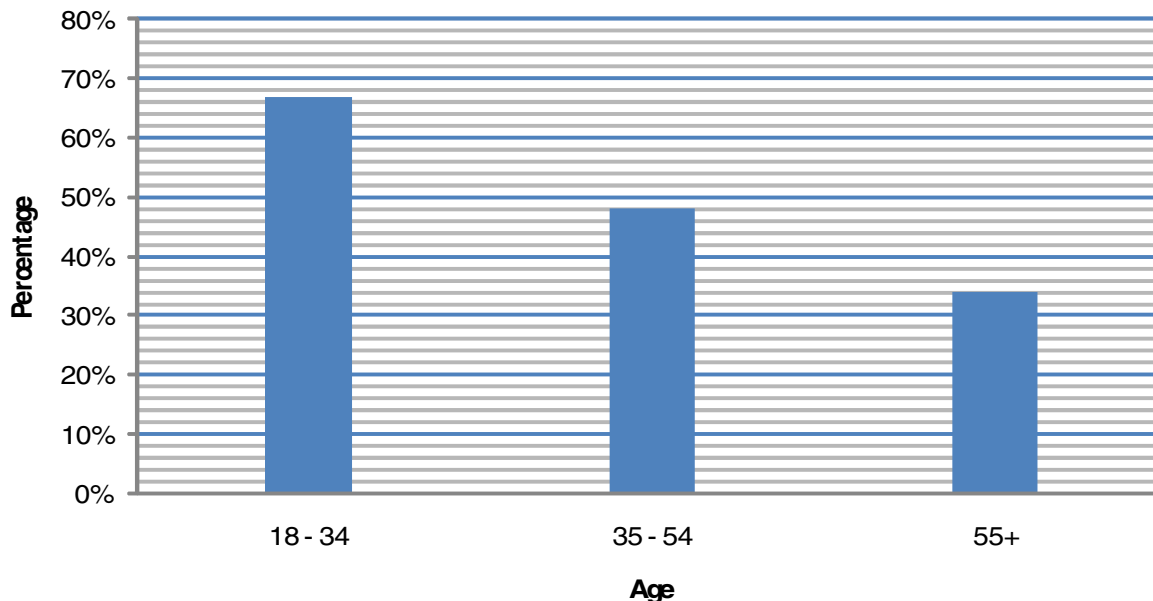
Furthermore, when purchasing or renting a video game for their children, the ESAC survey found that 82 percent of Canadian parents check the ESRB rating symbol on the game box to determine the suitability of the game. Additionally, 86 percent of Canadian parents use the content descriptors when purchasing games for their children. The same survey also revealed that 95 percent of Canadian parent respondents in 2009 reported to have played video games with their children at least once a month. Amongst these Canadian parents, 57 percent have reported that they play video games with their children at least once a week. Therefore, this would indicate that the Canadian market for children and family oriented video games is growing and offers great opportunities for U.S. organizations, which develop gaming software that is fun, educational, and promote physical activity.

Different consumer groups have various preferences regarding the type of platform used to play video games. The computer remains the most popular platform of use across all age groups, however, game consoles and handheld devices are becoming the most frequent amongst teens and youth. As a result, entertainment software developers have been rapidly picking up on this trend and are now discharging the majority of gaming software and accessories for young consumers geared towards these platforms.

Market Entry

Canada is an ideal export destination for U.S. organization in the gaming industry. It is geographically close to the United States and shares similar business practices and attitudes. More importantly, Canadian companies are predisposed to partnering with U.S. firms. The integration of trade and investment between Canada and the U.S. has vastly simplified doing business across the U.S.-Canada border. U.S. products and services also experience a high degree of receptivity in the Canadian market.

Canada's distribution and sales channels for entertainment software are similar to those in other industrialized countries. For U.S. companies, there are various ways to enter the Canadian market. The market entry strategy should be based on in-depth knowledge of the Canadian market, financial resources and human capital available. Entering the Canadian market can be accomplished by establishing partnerships, joint ventures, subsidiaries or opening an office in Canada, however, for the initial stage it is often preferable to work with local agents or representatives in order to effectively introduce new products to Canada. Some

companies that are new to exporting to Canada prefer to sell directly to the Canadian end-user and provide service from their U.S. headquarters.

Market Issues & Obstacles

There are no significant barriers to trade for the importation of entertainment software into Canada. However, U.S. firms should be aware of other market issues before entering the Canadian Entertainment Software market. These issues are listed below.

Some organizations, including the Entertainment Software Association (ESA), consider Canada to be a piracy haven. Online piracy, fueled by the availability of illicit mod chips and game copiers are the primary concern for this industry. The International Intellectual Property Alliance (IIPA) implicates Canada as a top distributor of mod chips used to avoid anti-theft technology installed in game consoles such as Microsoft Xbox and Sony PlayStation 2.   In fact, in 2009, due to Canada's delay in implementing the WIPO treaties, ineffective enforcement mechanisms, and several other issues, USTR placed Canada on its Special 301 "Priority Watch List". Members of both the ESA and IIPA are both recommending that Canada be retained on the Priority Watch List in 2010 based in large part on Canada's inadequate response to domestic sources of piracy. Piracy is estimated to cost the U.S. and Canadian entertainment software industries more than $3.5 billion annually.

In response to parental concerns on the contents of video games, the Entertainment Software Association formed the Entertainment Software Rating Board (ESRB) that independently assigns ratings to entertainment software. Although Canada does not have its own rating system, there is a Canadian advisory committee that provides Canadian input into the ESRB's rating system. Some of the input that was gathered by this committee showed that eighty-three percent of Canadians agree that the rating system helps parents buy and rent video games that are appropriate for their children. As a result, the Retail Council of Canada, the ESAC and the ESRB created the Commitment to Parents Program. With this educational initiative, participating Canadian retailers voluntarily agree to:

1. Display point-of-sale consumer education signage featuring the slogan, "OK to Play? — Check the Ratings," illustrating how to use the ESRB rating system,
2. Not to sell or rent games that carry an M-Mature or AO-Adults Only – rating to anyone under the age of 17 or 18 respectively.

A further market obstacle in the Canadian video game market is the French language law in Quebec. An agreement made between the Quebec government and the ESAC in 2007 puts the responsibility of translating video games into French on game distributers. Retailers have indicated that the results of the agreement are higher prices for consumers. This represents a potential competitive disadvantage for U.S. companies because, in addition to the heavy concentration of video game development in Montreal, a bilingual city, all Canadian based game developers already develop games in French to meet Canadian language requirements. Thus, retail costs may perhaps be slightly higher for games from the United States that are not already published in French.

Under the North American Free Trade Agreement (NAFTA), no customs duties or tariffs are levied on qualified U.S. made products entering Canada. To get duty-free status under the NAFTA rules of origin, a commercial NAFTA import over CDN$1,600 must be accompanied by a NAFTA Certificate of Origin; while a commercial import less than CDN$1,600 only requires a statement of origin from the exporter that the product is U.S.-made. Canada looks at the origins of the component parts of an item and whether they are transformed in the process of manufacture into another category to determine whether a product is entitled to NAFTA treatment. This can be quite complex, therefore, U.S. companies should consult the U.S. Department of Commerce's NAFTA Certificate of Origin Interactive Tool at http://web.ita.doc.gov/ticwebsite/ticit.nsf/.

Trade Events

Attending key industry trade shows and exhibitions in Canada is one of the best ways for U.S. firms to increase the exposure of their products, and find potential Canadian distributors/agents or end-users, which in return will help them capitalize on the opportunities available in Canada. Some upcoming events include:

Game Design Expo
April 10-11, 2010
Vancouver, British Columbia
www.gamedesignexpo.com

Game Developers Conference Canada
May 6-7, 2010
Vancouver, British Columbia
www.gdc-canada.com

INPlay 2010
May 18-19, 2010
Toronto, Ontario
www.inplay2010.com

Fan Expo Canada
June 5-6, 2010
Toronto, Ontario
http://www.hobbystar.com/fanexpo/

Resources & Contacts

Canada's Entertainment Software Industry – by Hickling Arthurs Low

Commitment to Parents Program

Entertainment Software Association of Canada

Entertainment Software Rating Board

Interactive Digital Media Tax Credits in Canada:
      Manitoba
      Nova Scotia
      Ontario

International Intellectual Property Alliance

Invest in Canada – Games Sector

For More Information

The U.S. Commercial Service in Ottawa, Canada can be contacted via e-mail at: Tracey.Ford@mail.doc.gov;
Phone: 613-688-5406; Fax: 613-238-5999; or visit our website: www.buyusa.gov/canada.

The U.S. Commercial Service — Your Global Business Partner

With its network of offices across the United States and in more than 80 countries, the U.S. Commercial Service of the U.S. Department of Commerce utilizes its global presence and international marketing expertise to help U.S. companies sell their products and services worldwide. Locate the U.S. Commercial Service trade specialist in the U.S. nearest you by visiting http://www.export.gov/eac.

Comments and Suggestions: We welcome your comments and suggestions regarding this market research.
You can e-mail us your comments/suggestions to: Customer.Care@mail.doc.gov. Please include the name of the applicable market research in your e-mail. We greatly appreciate your feedback.